

INTRODUCTION

Legislative Basis for the INCSR

The Department of State's International Narcotics Control Strategy Report (INCSR) has been prepared in accordance with section 489 of the Foreign Assistance Act of 1961, as amended (the "FAA," 22 U.S.C. § 2291). The 2008 INCSR, published in March 2008, covers the year January 1 to December 31, 2007 and is published in two volumes, the second of which covers money laundering and financial crimes. In addition to addressing the reporting requirements of section 489 of the FAA (as well as sections 481(d)(2) and 484(c) of the FAA and section 804 of the Narcotics Control Trade Act of 1974, as amended), the INCSR provides the factual basis for the designations contained in the President's report to Congress on the major drug-transit or major illicit drug producing countries initially set forth in section 591 of the Kenneth M. Ludden Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 (P.L.107-115) (the "FOAA"), and now made permanent pursuant to section 706 of the Foreign Relations Authorization Act, Fiscal Year 2003 (P.L.107-228) (the "FRAA").

Section 706 of the FRAA requires that the President submit an annual report no later than September 15 identifying each country determined by the President to be a major drug-transit country or major illicit drug producing country. The President is also required in that report to identify any country on the majors list that has "failed demonstrably. . . to make substantial efforts" during the previous 12 months to adhere to international counternarcotics agreements and to take certain counternarcotics measures set forth in U.S. law. U.S. assistance under the current foreign operations appropriations act may not be provided to any country designated as having "failed demonstrably" unless the President determines that the provision of such assistance is vital to the U.S. national interests or that the country, at any time after the President's initial report to Congress, has made "substantial efforts" to comply with the counternarcotics conditions in the legislation. This prohibition does not affect humanitarian, counternarcotics, and certain other types of assistance that are authorized to be provided notwithstanding any other provision of law.

The FAA requires a report on the extent to which each country or entity that received assistance under chapter 8 of Part I of the Foreign Assistance Act in the past two fiscal years has "met the goals and objectives of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" (the "1988 UN Drug Convention") FAA§ 489(a)(1)(A).

Last year, pursuant to The Combat Methamphetamine Enforcement Act (CMEA) (The USA Patriot Improvement and Reauthorization Act 2005, Title VII, P.L. 109-177), amending sections 489 and 490 of the Foreign Assistance Act (22 USC 2291h and 2291) section 722, the INCSR was expanded to include reporting on the five countries that export the largest amounts of methamphetamine precursor chemicals, as well as the five countries importing these chemicals and which have the highest rate of diversion of the chemicals for methamphetamine production. This expanded reporting, which also appears in this year's INCSR and will appear in each subsequent annual INCSR report, also includes additional information on efforts to control methamphetamine precursor chemicals, as well as estimates of legitimate demand for these methamphetamine precursors, prepared by most parties to the 1988 UN Drug Convention and submitted to the International Narcotics Control Board. The CMEA also requires a Presidential determination by March 1 of each year on whether the five countries that legally exported and the five countries that legally imported the largest amount of precursor chemicals (under FAA section 490) have cooperated with the United States to prevent these substances from being used to produce methamphetamine or have taken adequate steps on their own to achieve full compliance with the

1988 UN Drug Control Convention. This determination may be exercised by the Secretary of State pursuant to Executive Order 12163 and by the Deputy Secretary of State pursuant to State Department Delegation of Authority 245.

Although the Convention does not contain a list of goals and objectives, it does set forth a number of obligations that the parties agree to undertake. Generally speaking, it requires the parties to take legal measures to outlaw and punish all forms of illicit drug production, trafficking, and drug money laundering, to control chemicals that can be used to process illicit drugs, and to cooperate in international efforts to these ends. The statute lists action by foreign countries on the following issues as relevant to evaluating performance under the 1988 UN Drug Convention: illicit cultivation, production, distribution, sale, transport and financing, and money laundering, asset seizure, extradition, mutual legal assistance, law enforcement and transit cooperation, precursor chemical control, and demand reduction.

In attempting to evaluate whether countries and certain entities are meeting the goals and objectives of the 1988 UN Drug Convention, the Department has used the best information it has available. The 2008 INCSR covers countries that range from major drug producing and drug-transit countries, where drug control is a critical element of national policy, to small countries or entities where drug issues or the capacity to deal with them are minimal. The reports vary in the extent of their coverage. For key drug-control countries, where considerable information is available, we have provided comprehensive reports. For some smaller countries or entities where only limited information is available, we have included whatever data the responsible post could provide.

The country chapters report upon actions taken—including plans, programs, and, where applicable, timetables—toward fulfillment of Convention obligations. Because the 1988 UN Drug Convention's subject matter is so broad and availability of information on elements related to performance under the Convention varies widely within and among countries, the Department's views on the extent to which a given country or entity is meeting the goals and objectives of the Convention are based on the overall response of the country or entity to those goals and objectives. Reports will often include discussion of foreign legal and regulatory structures. Although the Department strives to provide accurate information, this report should not be used as the basis for determining legal rights or obligations under U.S. or foreign law.

Some countries and other entities are not yet parties to the 1988 UN Drug Convention; some do not have status in the United Nations and cannot become parties. For such countries or entities, we have nonetheless considered actions taken by those countries or entities in areas covered by the Convention as well as plans (if any) for becoming parties and for bringing their legislation into conformity with the Convention's requirements. Other countries have taken reservations, declarations, or understanding to the 1988 UN Drug Convention or other relevant treaties; such reservations, declarations, or understandings are generally not detailed in this report. For some of the smallest countries or entities that have not been designated by the President as major illicit drug producing or major drug-transit countries, the Department has insufficient information to make a judgment as to whether the goals and objectives of the Convention are being met. Unless otherwise noted in the relevant country chapters, the Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) considers all countries and other entities with which the United States has bilateral narcotics agreements to be meeting the goals and objectives of those agreements.

Information concerning counternarcotics assistance is provided, pursuant to section 489(b) of the FAA, in section entitled "U.S. Government Assistance."

Major Illicit Drug Producing, Drug-Transit, Significant Source, Precursor Chemical, and Money Laundering Countries

Section 489(a)(3) of the FAA requires the INCSR to identify:

- (A) major illicit drug producing and major drug-transit countries,
- (B) major sources of precursor chemicals used in the production of illicit narcotics; or
- (C) major money laundering countries.

These countries are identified below.

Major Illicit Drug Producing and Major Drug-Transit Countries ¹

A major illicit drug producing country is one in which:

- (A) 1,000 hectares or more of illicit opium poppy is cultivated or harvested during a year;
- (B) 1,000 hectares or more of illicit coca is cultivated or harvested during a year; or
- (C) 5,000 hectares or more of illicit cannabis is cultivated or harvested during a year, unless the President determines that such illicit cannabis production does not significantly affect the United States. FAA § 481(e)(2).

A major drug-transit country is one:

- (A) that is a significant direct source of illicit narcotic or psychotropic drugs or other controlled substances significantly affecting the United States; or
- (B) through which are transported such drugs or substances. FAA § 481(e)(5).

The following major illicit drug producing and/or drug-transit countries were identified and notified to Congress by the President on September 14, 2007, consistent with section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228):

Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.

¹ NB: The Presidential Determination as to which countries are “Major Illicit Drug Producing and Major Illicit Drug Trafficking Countries”, and which “failed demonstrably” to adhere to their obligations, reported in this year’s INCSR, is based on information available as of September 2007 and detailed in the 2007 INCSR. Determinations on the majors’ list are regularly made in the year preceding that in which they are reported in the INCSR.

Of these 20 countries, **Burma and Venezuela** were designated by the President as having “failed demonstrably” during the previous 12 months to adhere to their obligations under international counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. The President also determined, however, in accordance with provisions of Section 706(3)(A) of the FRAA, that support for programs to aid Venezuela’s democratic institutions is vital to the national interests of the United States.

Major Precursor Chemical Source Countries

The following countries and jurisdictions have been identified to be major sources of precursor or essential chemicals used in the production of illicit narcotics:

Argentina, Brazil, Canada, Chile, China, Germany, India, Mexico, the Netherlands, Singapore, South Korea, Taiwan, Thailand, the United Kingdom, and the United States.

Information is provided pursuant to section 489 of the FAA in the section entitled “Chemical Controls.”

Major Money Laundering Countries

A major money laundering country is defined by statute as one “whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking.” FAA § 481(e)(7). However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. This year’s list of major money laundering countries recognizes this relationship by including all countries and other jurisdictions, whose financial institutions engage in transactions involving significant amounts of proceeds from all serious crime. The following countries/jurisdictions have been identified this year in this category:

Afghanistan, Antigua and Barbuda, Australia, Austria, Bahamas, Belize, Brazil, Burma, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Cyprus, Dominican Republic, France, Germany, Greece, Guatemala, Guernsey, Haiti, Hong Kong, India, Indonesia, Iran, Isle of Man, Israel, Italy, Japan, Jersey, Kenya, Latvia, Lebanon, Liechtenstein, Luxembourg, Macau, Mexico, Netherlands, Nigeria, Pakistan, Panama, Paraguay, Philippines, Russia, Singapore, Spain, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, and Venezuela.

Further information on these countries/jurisdictions and United States money laundering policies, as required by section 489 of the FAA, is set forth in Volume II of the INCSR in the section entitled “Money Laundering and Financial Crimes.”

Presidential Determination

White House Press Release
Office of the Press Secretary
Washington, DC
September 14, 2007

Presidential Determination No. 2007-33

Pursuant to section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228)(FRAA), I hereby identify the following countries as major drug transit or major illicit drug producing countries: **Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.**

A country's presence on the Majors List is not necessarily an adverse reflection of its government's counternarcotics efforts or level of cooperation with the United States. Consistent with the statutory definition of a major drug transit or drug producing country set forth in section 481(e)(2) and (5) of the Foreign Assistance Act of 1961, as amended (FAA), one of the reasons that major drug transit or illicit drug producing countries are placed on the list is the combination of geographical, commercial, and economic factors that allow drugs to transit or be produced despite the concerned government's most assiduous enforcement measures.

Pursuant to section 706(2)(A) of the FRAA, I hereby designate Burma and Venezuela as countries that have failed demonstrably during the previous 12 months to adhere to their obligations under international counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. Attached to this report are justifications for the determinations on Burma and Venezuela, as required by section 706(2)(B). I have also determined, in accordance with the provisions of section 706(3)(A) of the FRAA, that support for programs to aid Venezuela's democratic institutions is vital to the national interests of the United States.

Although President Karzai has strongly attacked narcotrafficking as the greatest threat to Afghanistan, one third of the Afghan economy remains opium-based, which contributes to widespread public corruption, damage to licit economic growth, and the strengthening of the insurgency. The government at all levels must be held accountable to deter and eradicate poppy cultivation, remove and prosecute corrupt officials, and investigate and prosecute or extradite narcotraffickers and those financing their activities. We are concerned that failure to act decisively now could undermine security, compromise democratic legitimacy, and imperil international support for vital assistance.

In Afghanistan, one model for success can be drawn by comparing the marked differences in cultivation between the northern and southern provinces. Several northern provinces contributed to a decline in poppy cultivation resulting from a mixture of political will and incentives and disincentives, such as public information, alternative development, and eradication. Furthermore, several northern provinces with very low amounts of poppy are well on their way to becoming poppy free.

Despite the significant progress made in Afghanistan since 2001, the country continues to face tremendous challenges. Our struggle to win hearts and minds, while confronting the insurgency,

continues to directly hinge on our ability to help the Afghan government produce visible results. We need to encourage a firm belief among the Afghan people that their national government is capable of delivering an alternative to the preceding decades of conflict. Our reconstruction assistance is an essential instrument to achieve that goal.

Bolivian counternarcotics cooperation has been uneven. The Bolivian government has cooperated closely on interdiction, and operations and seizures have reached record levels. The government is on track to reach 5,600 hectares of eradication this year, surpassing its goal of 5,000 hectares.

However, these measures have been outstripped by replanting and expansion of cultivation in Bolivia, the world's third-largest producer of coca. The Government of Bolivia's policy of "zero cocaine, but not zero coca" has focused primarily on interdiction, to the exclusion of its other essential complements, especially coca crop eradication. We strongly encourage the Government of Bolivia to make its number one priority the reduction and eventual elimination of excess coca crops, a major source of illegal cocaine for the hemisphere, Europe, the United States, and increasingly, for Bolivian citizens. In the area of drug control policy development, we urge the Government of Bolivia to revamp its national drug control strategy to eliminate permissiveness in licit cultivation, to abolish the so-called "cato" exemption, and to tighten controls on the sale of licit coca. As a party to the three major United Nations drug conventions, we urge Bolivia to move quickly to adopt and implement a modern anti-money/counterterrorism financing law, and take concrete steps to strengthen and better enforce precursor chemical controls and its asset forfeiture regime.

The United States enjoys close cooperation with Canada across a broad range of law enforcement issues. We remain concerned that the production of high-potency, indoor-grown marijuana for export to the United States continues to thrive in Canada in part because growers do not consistently face strict legal punishment. The marijuana industry in Canada is becoming increasingly sophisticated, with organized crime groups relying on marijuana sales as the primary source of income and using profits to finance other illegal activities. The production of synthetic drugs such as MDMA/Ecstasy and methamphetamine, some of which are exported to the United States, appears to be on the rise in Canada. The Government of Canada has made a serious effort to curb the diversion of precursor chemicals that are required for methamphetamine production to feed domestic and U.S. illegal markets and has worked productively with the United States in joint law enforcement operations that disrupted drug and currency smuggling operations along both sides of the border.

The Government of Ecuador has made considerable progress in combating narcotics trafficking destined for the United States. However, a dramatic increase in the quantity of cocaine transported toward the United States using Ecuadorian-flagged ships remains an area of serious concern. Effective cooperation and streamlined maritime operational procedures between the U.S. Coast Guard and Ecuadorian Navy are resulting in an increase in the amount of cocaine interdicted. Building on that cooperation, we will work with Ecuador to change the circumstances that make Ecuadorian-flagged vessels and Ecuadorian citizenship so attractive to drug traffickers.

Guinea-Bissau is becoming a warehouse refuge and transit hub for cocaine traffickers from Latin America transporting cocaine to Western Europe. Narcotics traffic is becoming yet another hurdle for Guinea-Bissau as it emerges from civil conflict. International donors and organizations are working to encourage and assist Guinea-Bissau in its efforts to confront organized cocaine trafficking networks that would use the country for warehousing and transshipment. These efforts are certainly appropriate and should be supported and advanced to deter illegal drug activities in Guinea-Bissau.

India has an exemplary record on controlling its licit opium production and distribution process, despite formidable challenges to its efforts. The Government of India can be correctly proud of its diligent law enforcement agencies and the introduction of high-tech methods, including “Smart Cards” for each licensed opium farmer. Recently, Indian enforcement officials identified and destroyed substantial illicit opium poppy cultivation in areas thought to be free of illicit cultivation in the past. Indian officials will want to investigate the circumstances of this surprisingly large illicit cultivation to identify those behind this disquieting phenomenon and arrest, prosecute, and convict them.

Nigeria has made progress on many narcotics control and anti-money laundering benchmarks. There is reason to be hopeful. The Economic and Financial Crimes Commission has seized millions in the proceeds of crime, anti-money laundering efforts have been successful, and Nigeria is cooperating with the international community to improve its efforts against money laundering even more. Still necessary are procedural reforms to streamline extradition procedures. For many narcotics criminals no sanction is more effective than the fear they could face a court and jail time in the countries to which they have trafficked narcotics. Nigeria should also re-double its efforts to use its frequent apprehension of street criminals and couriers to identify and prosecute major drug traffickers.

You are hereby authorized and directed to submit this report under section 706 of the FRAA, transmit it to the Congress, and publish it in the *Federal Register*.

GEORGE W. BUSH

MEMORANDUM OF JUSTIFICATION FOR PRESIDENTIAL DETERMINATION ON MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2008

Venezuela

Venezuela has failed demonstrably to make sufficient efforts to meet its obligation under international counternarcotics agreements and U.S. domestic counternarcotics requirements for the second straight year.

This determination comes as the result of the Government of Venezuela's insufficient action against drug trafficking within and through its borders, commensurate with the country's international obligations and responsibilities to the international community. The Government of Venezuela has also failed to respond to specific United States Government requests for counternarcotics cooperation.

Although the Government of Venezuela has indicated that it has developed new programs to fight increased drug trafficking, seizures continue to be very limited, and there continues to be a lack of significant inspections at ports of entry and exit, including along the border with Colombia. The Government of Venezuela also has not attempted meaningful prosecutions of traffickers or corrupt officials. Venezuela's importance as a transshipment point for drugs bound for the United States and Europe continues to increase, a situation both enabled and exploited by corrupt Venezuelan officials and a weak judicial system. Meanwhile, organized crime is flourishing.

The Government of Venezuela has not renewed formal counternarcotics cooperation agreements with the United States Government, including signing a letter of agreement that would make funds available for cooperative programs to fight the flow of drugs to the United States.

The vital national interest certification will allow the United States Government to provide funds that support programs to support civil society and other beleaguered democratic institutions and to assist in small community development programs for the benefit of the Venezuelan people.

MEMORANDUM OF JUSTIFICATION FOR PRESIDENTIAL DETERMINATION ON MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2008

Burma

Burma failed demonstrably to make sufficient efforts during the last 12 months to meet its obligations under international counternarcotics agreements and the counternarcotics requirements set forth in section 489 (a) (1) of the Foreign Assistance Act of 1961, as amended.

Burma still is the largest source of methamphetamine pills in Asia, and pill production continues to grow. Burma's military government has taken no consistent action against the largest methamphetamine pill manufacturing and trafficking group in Asia, the United Wa State Army, an armed semi-autonomous ethnic minority organization, which has caused considerable hardship for Burma's neighbors in Thailand, Malaysia, Singapore and Indonesia. On occasion, Burmese authorities have accepted casualties, in the enforcement of Burma's anti-narcotics laws, but overall Burma has not mounted a serious, direct, and effective confrontation of the known narcotics manufactures and traffickers operating from its territory.

The military regime appears to deal inconsistently with suspected drug traffickers, in some cases moving sharply against them to enforce anti-narcotics laws and, in other cases, seeming to tolerate their criminality, if not encourage it. Declining poppy cultivation has been matched by a sharp increase in the production and export of synthetic drugs. To date, Burma has taken no direct action against the eight leaders of the notorious United Wa State Army indicted in January 2005 in a U.S. Federal court, nor has any action been taken against the infamous drug kingpin Chang Chi-Fu, who surrendered to Burmese official but continues to live in Rangoon.

Burma makes no consistent effort against drug-related corruption, in contravention of its international treaty commitments. Many army and police personnel posted on the border are believed to be involved in facilitating the drug trade. The military government has never prosecuted a Burmese Army officer over the rank of full colonel for drug-related offenses or drug-related corruption.

For the third consecutive year, Burma failed to provide sufficient cooperation to support the United States-Burma joint opium yield survey, previously an annual exercise. Opium yield surveys are clearly in the interest of both sides to track the implications of policy steps taken and to gauge future action based on hard facts rather than estimates.

Burma's prevention and drug treatment programs suffer from inadequate resources and a lack of high-level government support. Funding limitations mean that many addicts cannot be reached. According to UNAIDS, Burma's Ministry of Health spent a total of \$137,000 on HIV in 2005, equivalent to less than half of \$0.01 per person.

While the overall picture of Burma's counternarcotics efforts remains overwhelmingly negative, there are some positive aspects. Opium production in Burma is down more than 80 percent from its peak, in part as a result of Burmese Government efforts. Seizures of methamphetamine increased in 2006 and 2007; law enforcement officials netted in excess of 19 million methamphetamine tablets. Burma destroyed three methamphetamine labs in 2006.

In October 2006, the Financial Action Task Force (FATF) removed Burma from the FATF list of Non-Cooperative Countries and Territories, although the United States maintains separate

countermeasures issued by the Financial Crimes Enforcement Network of the Treasury Department. Burma became a member of the Asia/Pacific group on Money Laundering in January 2006. Burma maintains a regular dialogue on precursor chemicals with India, China, Thailand, and Laos. As a result, India and China have taken steps, including the creation of exclusion zones, to divert precursors away from Burma's border areas. Burma has also cooperated with these countries on a variety of counternarcotics law enforcement issues.